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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 000380

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SUBJECT: GAZAN ECONOMY DISRUPTED BY KARNI CLOSURE

Classified By: Economic Counselor Bill Weinstein for reasons 1.4 (b) and (d)

1. (SBU) Summary: The closure at Karni terminal, which has been in effect since the January 13 attack that killed six Israeli employees, has caused the agriculture, furniture, and garment sectors within Gaza to lose some USD four million and to lay off over 1,000 workers. In the Gazan marketplace, prices of consumables like dairy products, flour, and grain have increased by over 10 percent, while a glut of fresh produce intended for export to Europe has caused strawberry and tomato prices to drop by two-thirds. Optimistic sources within Israeli and Gazan private enterprise say the total closure will end shortly after the Eid holiday, but terminal management claims they have no estimate of when Karni will reopen. Others believe conflicts between Gazan farm workers and agricultural collective leadership over the appropriate response to Israel in the wake of the closure may linger beyond the terminal's re-opening. End summary.

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Stalled Exports Mean Profit Losses, Layoffs  
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2. (SBU) Karni Terminal, the Gaza Strip's sole trade gateway to Israel and the rest of the world, has been closed since January 13, when a bomb attack there killed six Israeli staff and wounded many more. USAID reports that the attendant cessation of Gazan exports to the West Bank, Israel, Europe and the U.S. has resulted in a profit loss of more than USD four million across the agriculture, furniture, and garment sectors. Some 800 garment industry workers and several hundred construction workers have been laid off since the terminal closed, though industry contacts state they may be re-hired once trade begins again in earnest and construction projects are taken off hold. Israeli shipping company Agrexco, which markets Gazan exports to Europe and the U.S. under Israel's free trade agreements, reports that the 1.5 thousand tons of each Gazan product it usually ships during a growing season has dropped to "zero" since the closure. As a result, European clients have tired of waiting for shipments to arrive and have turned instead to suppliers in Egypt, Spain, and Turkey.

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Shortages and Price Increases  
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3. (C) Gazan businesses dependant on imported raw materials and relief organizations that bring hundreds of containers of food and humanitarian supplies through Karni each month have been especially hard-hit by the closure. Pepsi bottler Mohammed Yazgi said product upheaval within the marketplace is visible proof of the closure's effect -- "all kinds of vegetables" meant for export to Europe now fill stalls and adorn Eid tables. Kiosks hawk "mountains" of strawberries on street corners for less than NIS 10 per 10 kilograms, one-third their customary price. Cherry tomatoes, another quickly perishable item, are also spoiling in the marketplace or being "dumped" at slashed prices. Conversely, shortages of consumables like dairy items, flour, and grain, which generally enter Gaza through Karni, have resulted in price increases of over 10 percent.

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Agrexco's Awkward Position  
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4. (C) Agrexco marketing executive Rani Friedlander noted that more than monetary loss, failure to deliver goods for this extended period of time has severely undermined Agrexco's credibility in the world marketplace and will damage business in the long-term. As the primary shipping and marketing arm for Gazan export everywhere in the world besides the West Bank, Friedlander said, Agrexco has put pressure on the IDF to reopen Karni quickly during previous periods of closure. In this instance, however, it cannot speak up -- the bomb attack took place at 10:50 pm only three weeks after the IDF granted Agrexco's request to allow terminal management to extend business hours from a 6:00 pm closure to an 11:00 pm closure. The company is "in the doghouse," Friedlander explained, and must stand aside as politicians decide when Karni will reopen.

5. (C) Numerous Gazan and Israeli private sector contacts said they believe the terminal will reopen immediately

following the Eid holiday, but terminal manager Yoni Doton told Econoff he has heard nothing about a potential reopening. The concrete wall that ensures separation between the Israeli and Palestinian sides of the terminal is still damaged from the blast, he said. Moreover, staffing is low after casualties, injuries, and simple departures following the incident, and it will be difficult to draw new workers now that morale is so low.

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Striking Farm Workers Angry at Collectives  
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16. (C) PalTrade project officer Hashim al-Hussaini (protect) told Econoff that several hundred striking Gazan farmers marched on the PA Ministry of Agriculture last week to demand financial assistance in the wake of the Karni closure. Such assistance may be granted, Hussaini said, but the conflict that has arisen between farm workers and Gazan export-oriented agricultural collectives over the appropriate response to Israel after the closure could linger even past the terminal's re-opening. When leaders from the Bayt Lahia Cooperative, the Gaza Agricultural Cooperative, and the Strawberry Farmers' Union -- also currently on strike -- recently planned to join PalTrade in a meeting with members of the Israeli business community, the farmers demanded they "not set foot" in Israel in protest of the closure. "(The farm workers) didn't believe us that we were going to talk to the Israelis about solutions," he said.

17. (C) "Complaining to the Ministry of Agriculture and striking won't do them any good," Hussaini said. Instead, he explained, farmers, union bosses, and Gazan business leaders must demand the PA put a stop to terrorism. "The workers don't realize it is these idiots (those who carried out the attack) they should be angry at."

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